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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114858

DEC 15 1972

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Dear Mr. Secretary:

We have examined the Statement of Assets and Liabilities of the Federal Columbia River Power System (see note 1 to the financial statements) as of June 30, 1972, and the related Statements of Revenues and Expenses and of Changes in Financial Position for fiscal year 1972. Our examination was made in accordance with generally accepted auditing standards and included tests of the accounting records of the Corps of Engineers, the Bureau of Reclamation, and the Bonneville Power Administration and such other auditing procedures as we considered necessary in the circumstances. P. 73

The accompanying financial statements were prepared on a cost-accounting basis which included depreciation. The statements do not present the financial results on a basis designed to show whether power rates are adequate to repay the Federal investment in the System, either for the fiscal year or cumulatively. (See note 1 to the financial statements.)

Subject to the financial effects of future adjustments related to the adoption of firm cost allocations as explained in note 2 and of the resolution of the matters involving interest credit and irrigation assistance as explained in notes 3 and 4, the accompanying financial statements, in our opinion, present fairly the assets and liabilities of the Federal Columbia River Power System at June 30, 1972, the financial results of its power operations, and the changes in financial position for the year then ended, in conformity with accounting principles and standards prescribed for executive agencies of the Federal Government by the Comptroller General of the United States. These accounting principles and standards were applied on a basis consistent with that of the preceding year.

Copies of this report are being sent to the Director, Office of Management and Budget; the Chairman, Federal Power

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Commission; the Administrator, Bonneville Power Administration; the Commissioner of Reclamation; the Secretary of the Army; and the Chief of Engineers.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Axtell".

Comptroller General
of the United States

Enclosures - 5

2 The Honorable
The Secretary of the Interior *33*

FEDERAL COLUMBIA RIVER POWER SYSTEM
STATEMENT OF REVENUES AND EXPENSES
FOR THE FISCAL YEARS ENDED JUNE 30, 1972 AND JUNE 30, 1971

(in thousands)

	<u>1972</u>	<u>1971</u>
OPERATING REVENUES:		
Bonneville Power Administration		
Sales of electric energy:		
Publicly owned utilities	\$ 69,592	\$ 64,078
Privately owned utilities	37,848	25,121
Federal agencies	4,572	5,403
Aluminum industry	40,425	40,058
Other industry	5,510	5,561
Total	<u>157,545</u>	<u>140,021</u>
Other operating revenues:		
Wheeling revenues	11,391	10,386
Other revenues	4,014	2,321
Total	<u>15,405</u>	<u>12,707</u>
Total Bonneville Power Administration revenues	172,950	152,728
Associated projects		
Other operating revenues	3,035	2,950
Total power system operating revenues	<u>175,985</u>	<u>155,678</u>
OPERATING EXPENSES OTHER THAN DEPRECIATION:		
Purchase and exchange power (Note 8)	32,794	12,813
Operation and maintenance expense:		
Operation expense	31,558	29,680
Maintenance expense	17,335	14,907
Total operation and maintenance expense	<u>48,893</u>	<u>44,587</u>
Total operating expenses other than depreciation	<u>81,687</u>	<u>57,400</u>
Net operating revenues	<u>94,298</u>	<u>98,278</u>
INTEREST EXPENSE:		
Interest on Federal investment (projects in service)	74,612	67,742
Related interest charged to construction	10,200*	8,603*
Net interest expense	<u>64,412</u>	<u>59,139</u>
NET REVENUES AVAILABLE FOR REPAYMENT	29,886	39,139
LESS DEPRECIATION	<u>25,788</u>	<u>24,512</u>
NET REVENUES (Schedule B)	<u>\$ 4,098</u>	<u>\$ 14,627</u>

*Denotes deduction

"Notes to the financial statements" are an integral part of this statement.

BEST DOCUMENT AVAILABLE

FEDERAL COLUMBIA RIVER POWER SYSTEM
STATEMENT OF ASSETS AND LIABILITIES
AS OF JUNE 30, 1972 AND JUNE 30, 1971

(in thousands)

	<u>ASSETS</u>		<u>LIABILITIES</u>	
	June 30		June 30	
	<u>1972</u>	<u>1971</u>	<u>1972</u>	<u>1971</u>
FIXED ASSETS:				
Completed plant (Schedule A)	\$3,045,072	\$2,927,283		
Retirement work in progress	26,253	20,049		
	<u>3,071,325</u>	<u>2,947,332</u>		
Less accumulated depreciation	275,489	253,375		
	2,795,836	2,693,957		
Construction work in progress (Schedule A)	1,031,977	826,497		
Total fixed assets	<u>3,827,813</u>	<u>3,520,454</u>		
CURRENT ASSETS:				
Unexpended funds	137,572	89,094		
Special funds	7,033	6,500		
Accounts receivable	26,259	29,182		
Materials and supplies	14,968	17,056		
Total current assets	<u>185,832</u>	<u>141,832</u>		
DEFERRED CHARGE FOR PAYMENT OF IRRIGATION ASSISTANCE (Schedule A) (Note 4)	<u>415,548</u>	<u>401,440</u>		
OTHER ASSETS AND DEFERRED CHARGES:				
Trust funds	5,912	6,218		
Other assets and deferred charges	10,443	4,663		
Total other assets and deferred charges	<u>16,355</u>	<u>10,881</u>		
TOTAL ASSETS	<u>\$4,445,548</u>	<u>\$4,074,607</u>		
PROPRIETARY CAPITAL:				
Investment of U.S. Government:				
Congressional appropriations	\$4,575,475	\$4,181,368		
Revenues transferred to continuing fund	4,287	4,033		
Transfers from other Federal agencies, net	31,274	27,983		
Interest on Federal investment (Note 7)	948,597	957,647		
Gross Federal investment	5,559,633	5,071,031		
Less funds returned to U.S. Treasury	1,957,148	1,822,167		
Net investment of U.S. Government	<u>3,602,485</u>	<u>3,248,864</u>		
Accumulated net revenues (Schedule P)	354,155	351,590		
Total proprietary capital	<u>3,956,640</u>	<u>3,600,454</u>		
COMMITMENTS (Note 5)				
CURRENT LIABILITIES:				
Accounts payable	57,742	57,153		
Employees accrued leave	4,639	4,890		
Total current liabilities	<u>62,381</u>	<u>62,043</u>		
LIABILITY OF U.S. GOVERNMENT FOR PAYMENT OF IRRIGATION ASSISTANCE (Schedule A) (Note 4)	<u>415,548</u>	<u>401,440</u>		
OTHER LIABILITIES AND DEFERRED CREDITS:				
Trust fund advances	5,912	6,218		
Other deferred credits	5,067	4,450		
Total other liabilities and deferred credits	<u>10,979</u>	<u>10,668</u>		
TOTAL LIABILITIES	<u>\$4,445,548</u>	<u>\$4,074,607</u>		

"Notes to the financial statements" are an integral part of this statement.

FEDERAL COLUMBIA RIVER POWER SYSTEM
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE FISCAL YEARS ENDED JUNE 30, 1972 AND JUNE 30, 1971

(in thousands)

	<u>1972</u>	<u>1971</u>
SOURCE OF FUNDS:		
Net revenues (Exhibit 1)	\$ 4,098	\$ 14,627
Add non-fund provision for depreciation	25,788	24,512
Prior years adjustments	<u>1,535*</u>	<u>9,423*</u>
Net funds from operations	<u>28,351</u>	<u>29,716</u>
Federal investment:		
Congressional appropriations	394,107	335,155
Transfers from other Federal agencies, net	3,291	219
Interest on Federal investment	90,950(a)	81,360
Transfers to continuing fund	254	
Total funds from Federal investment	<u>488,602</u>	<u>416,734</u>
 Total source of funds	 <u>\$516,953</u>	 <u>\$446,450</u>
APPLICATION OF FUNDS:		
Investment in electric utility plant and facilities, net	\$333,147(a)	\$330,295
Funds returned to U.S. Treasury	134,981	132,149
Increase in current assets net of current liabilities	43,662	15,966*
Increase in other assets net of other liabilities	<u>5,163</u>	<u>28*</u>
Total application of funds	<u>\$516,953</u>	<u>\$446,450</u>

(a) Includes capitalized interest of \$10,200 on projects in service and \$16,338 on projects under construction.

*Denotes deduction

"Notes to the financial statements" are an integral part of this statement.

FEDERAL COLUMBIA RIVER PROJECT
 ANNUAL AND ALLOCATION STATEMENT
 AS OF JUNE 30, 1972
 (in thousands)

Project	Total	COMMERCIAL POWER			IRRIGATION			NON-REIMBURSABLE					Percent of Total Returnable from Commercial Power Revenue	
		Completed Plant	Construction Work in Progress	Total	Returnable from Commercial Power Revenues	Returnable from Other Sources	Total Irrigation	Levigation	Flood Control	Fish and Wildlife	Recreation	Other		
Projects in service														
Transmission facilities (BFA)	\$1,313,820	\$1,245,137	\$ 168,683	\$1,313,820										100.0
Albion Falls (CE)	32,958	31,915		31,915										96.8
Baine (BR)	65,731	4,908	65	4,973	\$ 10,695	\$ 35,097	45,792	\$ 134	\$ 173		756			23.8
Bonneville (CE)	102,000	61,729	11,596	73,325			710	16,384			291			71.9
Chief Joseph (CE)	158,077	154,830	2,247	157,077	710						246		56	99.8
Columbia Basin (BR)	847,243	181,046	201,774	382,820	348,686	68,500	417,186	1,000	45,607				540	86.3
Cougar (CE)	58,182	17,900		17,900		1,931	1,931		523				208	30.8
Detroit-Big Cliff (CE)	66,504	40,395	23	40,418		4,752	4,752		219				290	60.8
Green Peter-Foster (CE)	87,924	49,056	2	49,058		5,676	5,676		357		1,152		2,061	55.8
Hills Creek (CE)	48,770	17,309	1	17,310		4,311	4,311		625				272	35.5
Hungry Horse (BR)	102,305	77,560	66	77,626										75.9
Ice Harbor (CE)	143,961	95,042	3,739	98,781					44,064			1,126		68.6
John Day (CE) (c)	494,819	368,062	4	368,066					81,008		13,828		5,434	74.4
Little Goose (CE) (c)	164,216	113,509	135	113,644					45,728				1,572	69.2
Lookout Point-Dexter (CE)	94,674	45,727	4	45,731		1,319	1,319		706		46,618		66	45.3
Lower Monumental (CE) (c)	192,276	144,217	87	144,304					46,460				1,510	78.1
McWary (CE)	308,751	256,521	66	256,587					51,363				831	74.7
Minidoka-Palisades (BR)	97,100	13,371	52	13,423	10,030	43,444	53,474				29,737		173	86.0
The Dalles (CE)	310,295	222,260	44,700	266,960					41,797				1,516	86.0
Yakima (BR)	63,387	4,578	180	4,758	10,234	4,243	5,477					\$1,152		23.7
Projects under construction (c)														
Devonshak (CE)	264,178		239,570	239,570										90.7
Libby (CE)	349,844		258,111	258,111										73.8
Lost Creek (CE)	23,455		2,131	2,131					414					9.1
Lower Granite (CE)	135,692		97,290	97,290										71.7
Teton (BR)	10,708		1,468	1,468	3,640	3,689	7,329				1,759		152	47.7
Investment assistance at 11 projects having no power generation														
	30,694													100.0
Subtotal plant investment	5,567,559	3,045,072	1,031,977	4,077,049	414,689	217,376	632,065	388,308	379,306	5,740	20,733	64,358		80.7
Repayment obligation retained by Columbia Basin Project (b)														
	2,211	1,352	1,352	859										100.0
Total	\$5,569,770	\$3,046,424	\$1,031,977	\$4,078,401	\$415,548	\$217,376	\$632,924	\$388,308	\$379,306	\$5,740	\$20,733	\$64,358		80.7

BPA - Bonneville Power Administration
 CE - Corps of Engineers
 BR - Bureau of Reclamation

(a) Non-reimbursable road costs.
 (b) Joint facilities transferred to Bureau of Sport Fisheries and Wildlife. Power portion is included in Exhibit 2 as a Deferred Item.
 (c) Projects in service that have tentative cost allocations at June 30, 1972. Projects under construction have tentative cost allocations (Note 2).

*Notes to the financial statements are an integral part of this schedule.

FEDERAL COLUMBIA RIVER POWER SYSTEM
 CHANGES IN ACCUMULATED NET REVENUES
 FOR THE FISCAL YEAR ENDED JUNE 30, 1972

(in thousands)

	Cumulative Balance June 30, 1971	Fiscal Year 1972	Prior Years Adjustments (Note 9)	Cumulative Balance June 30, 1972
OPERATING REVENUES	<u>\$1,727,348</u>	<u>\$175,985</u>		<u>\$2,103,333</u>
EXPENSES:				
Purchase and exchange power	75,744	32,794		108,538
Operation and maintenance expense	530,981	48,893	\$1,235	581,109
Interest expense	<u>661,252</u>	<u>64,412</u>		<u>725,664</u>
Total	<u>1,267,977</u>	<u>146,099</u>	<u>1,235</u>	<u>1,415,311</u>
NET REVENUES AVAILABLE FOR REPAYMENT	659,371	29,886	1,235*	688,022
LESS DEPRECIATION	<u>307,779</u>	<u>25,788</u>	<u>300</u>	<u>333,867</u>
ACCUMULATED NET REVENUES (Exhibit 2)	<u>\$ 351,592</u>	<u>\$ 4,098</u>	<u>\$1,535*</u>	<u>\$ 354,125</u>

*Denotes deduction

"Notes to the financial statements" are an integral part of this schedule.

FEDERAL COLUMBIA RIVER POWER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Major Accounting Considerations

The Federal Columbia River Power System (FCRPS) consists of the Bonneville Power Administration (BPA) and the generating facilities of the Corps of Engineers (Corps) and the Bureau of Reclamation (Bureau) for which BPA is the power marketing agent. Each entity is separately managed and financed but the facilities are operated as an integrated power system with the financial results consolidated under the FCRPS name.

These financial statements are prepared on a cost accounting basis including compound interest depreciation and interest on the unpaid Federal investment.

Costs of multi-purpose Corps and Bureau projects are assigned to the individual purposes through a cost allocation process. The portion of total project costs allocated to power is included in these statements.

These statements are not used to establish BPA's wholesale power rates. A separate repayment analysis is prepared for that purpose. In the accompanying statements, the depreciation life for fixed assets allocated to power averages about 64 years. However, the repayment periods used to establish power rates are 50 years for the generating projects and 40 years for the transmission system. Schedule A lists the projects included in FCRPS and the allocation of plant investment to the various purposes.

Changes in the format of the accompanying statements include revision of the Statement of Revenues and Expenses (Exhibit 1), and the Statement of Changes in Financial Position (Exhibit 3). In effecting these changes, Fiscal Year 1971 data were conformed to the new formats. Also, for the first time, a schedule of Changes in Accumulated Net Revenues (Schedule B) is included. This schedule provides a correlation between the accompanying cost based statements and cumulative totals shown in the first line of the separate repayment analysis.

Note 2. Tentative Cost Allocations

Plant and operation and maintenance expenses based on tentative allocations between power and non-power purposes are included for eight of the projects listed in Schedule A. In the past, adjustments have been made to plant and accumulated net revenues when firm allocations were adopted. At June 30, 1972, total joint plant costs for these eight projects are about \$1.5 billion of which \$1.1 billion are tentatively allocated to power and subject to retroactive adjustment. The amount of adjustments that may be necessary when the allocations become firm are not determinable at this time.

Note 3. Interest Credit

BPA's method of reducing interest expense to recognize an interest credit on current year receipts deposited with the U.S. Treasury has been questioned by the U.S. General Accounting Office (GAO). The method recommended by GAO is currently being considered by the Department of the Interior. It is not known at this time if BPA's current method will be

changed. If GAO's method is adopted, interest expense for Fiscal Years 1971 and 1972 would be increased in total for the two years by about \$4.1 million.

Note 4. Repayment Responsibility for Irrigation Costs

Legislation requires that FCRPS net revenues will provide financial assistance to return to the U.S. Treasury the cost of Bureau irrigation facilities which benefiting water users are unable to repay. Investment made through June 30, 1972 results in estimated irrigation assistance of \$416 million. FCRPS repayment studies show that the first payment for the assistance will be made in 1997. Congress may also authorize additional assistance of up to \$20 million for investment allocated to irrigation at six Corps projects.

The method of reflecting this repayment requirement in the accompanying statements is currently under study. The GAO has questioned the current practice and BPA agrees that all ramifications of the question should be explored in depth, including classification and amortization. However, a decision has not been reached at the time of statement preparation, and efforts will be made for resolution for the June 30, 1973 statements. These efforts will consider both legal requirements and generally accepted accounting principles and will involve consideration by GAO and the Department of the Interior, including all of its power marketing entities which are involved in irrigation assistance.

Note 5. Commitments to Exchange Power and Acquire Project Capability

a. Hanford Plant No. 1

BPA has made agreements with the Washington Public Power Supply System (WPPSS) and 76 participating utilities, to provide

power at BPA rates in an amount equal to the annual operating and debt service costs of the Hanford Plant No. 1, whether or not the plant is operating. In return, BPA receives the plant output. At June 30, 1972, about \$73 million of bonds remain outstanding and are due to be fully retired by 1996.

b. Columbia Storage Power Exchange

BPA has entered into unconditional agreements to provide to 41 utilities amounts of power which vary annually over a 30 year period and which have a value of \$314.1 million evaluated at current BPA rates. In exchange, BPA receives from the Columbia Storage Power Exchange, Canada's share of the additional power generated in the United States as a result of operating the three Canadian Treaty storage dams.

c. Centralia Coal Fired Steam Plant

BPA has entered into agreements with eight utilities to acquire a portion of the capability of the Centralia Coal Fired Steam Plant. BPA's commitment begins when the plant begins operation and continues until April 1, 1974 whether or not full capability is maintained. At June 30, 1972 the plant had not achieved full capability. BPA's commitment through April 1, 1974 is estimated at \$27.8 million.

d. Trojan Nuclear Plant

BPA has entered into agreements to acquire throughout the life of the Project, beginning approximately September 1, 1974

the Eugene Water and Electric Board's 30% ownership share of Project capability of the Trojan Nuclear Plant. BPA's costs are estimated to be \$12.1 million per year for a 35 year period. BPA is committed to 30% of annual costs whether or not the plant is completed, operable, or operating. By giving notice prior to July 1977, Eugene may withdraw Project capability beginning July 1, 1984 for its own use, and BPA payments would be reduced proportionally to any such withdrawal.

e. WPPSS Nuclear Project No. 2

BPA has entered into agreements to acquire the capability of the WPPSS Nuclear Project No. 2 which will be constructed and operated by WPPSS on the AEC Hanford reservation. The plant is scheduled for commercial operation beginning approximately September 1, 1977.

During the estimated 35 year life of the project, BPA's total costs are estimated to be \$1.5 billion. BPA is obligated under the agreements to pay the annual costs whether or not the project is completed, operable, or operating.

Note 6. Contingent Liabilities

Contingent liabilities total approximately \$64.0 million of which \$61.6 million represent various contractor claims and \$2.4 million represent claims under the Federal Tort Claims Act. Included in the contractor claims is \$54.7 million for work at Libby Dam Project. The activities which gave rise to these claims occurred prior to June 30, 1972, but part of the claims were filed subsequent to that date.

Note 7. Interest Rates

Rates of interest applied to unpaid Federal Investment are:

Generating Projects

Albeni Falls	2 1/2%
Boise	3%
Bonneville	2 1/2%
Bonneville Second Power House and Peaking Modifications	3 1/4%
Chief Joseph	2 1/2%
Chief Joseph Additional Units	3 1/8%
Columbia Basin	3%
Columbia Basin Third Power Plant	3 1/8%
Cougar	2 1/2%
Detroit-Big Cliff	2 1/2%
Dworshak	2 5/8%
Green Peter-Foster	2 1/2%
Hills Creek	2 1/2%
Hungry Horse	3%
Ice Harbor	2 1/2%
John Day	2 1/2%
Libby	3 1/8%
Little Goose	2 1/2%
Lookout Point-Dexter	2 1/2%
Lost Creek	3 1/8%
Lower Granite	2 1/2%
Lower Monumental	2 1/2%
McNary	2 1/2%
Minidoka	3%
Palisades	3%
Teton	3.342%
The Dalles	2 1/2%
The Dalles Additional Units	3 1/8%
Yakima - Rosa Division	3%
Yakima - Kernewick Division	2 1/2%

Transmission Facilities - BPA

Through Fiscal Year 1963	2 1/2%
Fiscal Year 1964	2 7/8%
Fiscal Year 1965	3%
Fiscal Year 1966 through 1968	3 1/8%
Fiscal Years 1969 and 1970	3 1/4%
Fiscal Year 1971	4 7/8%
Fiscal Year 1972	5 3/8%

Note 8. Purchase and Exchange Power

The current year increase in this expense is primarily the result of new steam purchase agreements for operation of the Hanford Plant No. 1. The new agreements apply to Fiscal Years 1972 through 1975. The amount of the increase in Fiscal Year 1972 for operation of Hanford Plant No. 1 was \$14.9 million.

Note 9. Adjustments to Accumulated Net Revenues

The following table lists the adjustments which have caused the net decrease in Accumulated Net Revenues of \$1,535,000 shown in Exhibit 3 and Schedule B.

	<u>In Thousands</u>
1. Write-off of surplus and obsolete materials and supplies at BPA	\$ (1,157)
2. Extraordinary retirements caused by construction of third power plant at Columbia Basin Project	(256)
3. Correction of adjustment to expenses at Chief Joseph Project due to adoption of sub-allocation to irrigation pumping power	(124)
4. Minor adjustment at Albeni Falls Project	2
	<hr/>
	<u>\$ (1,535)</u>